

**REPORT OF EXAMINATION**  
**OF THE**  
**DENTEGRA INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2006**

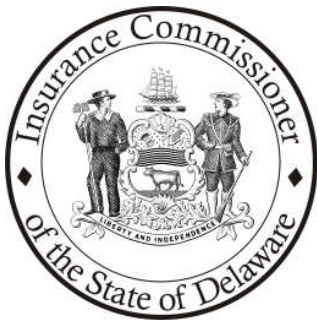
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

**DENTEGRA INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 16 JUNE 2008



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 16TH DAY OF JUNE 2008.

Matthew Denn  
Insurance Commissioner

**REPORT ON EXAMINATION**  
**OF THE**  
**DENTEGRA INSURANCE COMPANY**  
**AS OF**  
**December 31, 2006**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", is written over a horizontal line.

MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 16TH Day of JUNE 2008.

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## **SALUTATION**

December 12, 2007

Honorable Alfred Gross  
Chairman, Financial Condition (E)  
Committee, NAIC  
State Corporation Commission  
Bureau of Insurance  
PO Box 1157  
Richmond, VA 23218

Honorable Thomas E. Hampton  
Secretary, Northeastern Zone (I), NAIC  
Department of Insurance, Securities and  
Banking  
Government of the District of Columbia  
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Washington, DC 20002

Honorable Julie Mix McPeak  
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Office of Insurance  
Commonwealth of Kentucky  
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Honorable Merle D. Scheiber  
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South Dakota Division of Insurance  
Department of Revenue and Regulation  
445 East Capitol Avenue  
Pierre, SD 57501-3185

Honorable Kent Michie  
Secretary, Western Zone (IV), NAIC  
Utah Department of Insurance  
3110 State Office Building  
Salt Lake City, Utah 84114-1201

Honorable Matthew P. Denn  
Insurance Commissioner  
Department of Insurance  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904-2465

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 07.023 , an examination has been made of the affairs, financial condition and management of the

## **DENTEGRA INSURANCE COMPANY**

hereinafter referred to as "Company" or "DIC", incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1807 North Market Street, Wilmington, Delaware. The examination was conducted at the main

administrative office of the Company, located at 100 First Street M/S 12R, San Francisco, California 94105. The report of examination thereon is respectfully submitted.

### **SCOPE OF EXAMINATION**

The last examination of the Company was conducted by the Delaware Insurance Department as of December 31, 2003. This examination covered the period from January 1, 2004 through December 31, 2006, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on an exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company Officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards. In addition to items hereinafter incorporated as part of the written report, the following were reviewed without exceptions and made part of the workpapers of this examination:

Fidelity Bond and Other Corporate Insurance  
NAIC Financial Ratios  
Legal Actions  
Employee and Agents Welfare  
Subsequent Events  
All Asset and Liability items not mentioned in this report

Workpapers prepared by the Company's external accounting firm, Armanino McKenna LLP, San Ramon, California, in connection with the annual audit, were reviewed and relied upon to the extent deemed possible. INS Services, Inc. was retained by the Delaware Department of Insurance to assist the Examiner In-Charge in the actuarial phase of this Financial Condition Examination.

In addition to the Company, concurrent examinations were performed of Delta Dental Insurance Company and Delta Dental of Delaware, Inc., all Delaware domestic insurance companies.

### **HISTORY**

Dentegra Insurance Company was originally organized and incorporated under the name of Concho Life Insurance Company as a domestic limited stock life and disability insurer under the laws of the State of Arizona on July 27, 1966, and received its initial Certificate of Authority on September 13, 1966. The Company was incorporated as a wholly-owned subsidiary of Concho Investment Corporation ("Concho"), an affiliate of the former Valley National Bank of Arizona, a subsidiary of Valley National Corporation. On June 1, 1967, the Company qualified as a full legal reserve life and disability insurer.

By amendment to the Articles of Incorporation dated January 25, 1978, and filed with the Arizona Corporation Commission on March 9, 1978, the Company changed its name to Western Security Life Insurance Company.

Valley National Corporation and Concho were advised in March 1984 of the Bank Holding Company Act of 1956 and the requirement of the Board of Governors of the Federal Reserve System that Concho divest itself of control of the Company. Through two (2) separate transactions in 1984, 49% and 51% interests in the Company were transferred to affiliates Valley National Investors, Inc. and Lincoln National Life Insurance Company (Indiana), respectively.

On March 31, 1993, the Company was acquired by Banc One Corporation (Banc One), an Ohio based regional banking company, in connection with Banc One's acquisition of Valley National Investors, Inc. The acquisition was effective December 10, 1992.

Effective January 1, 1993, the Company ceased writing direct new business, excluding a monthly outstanding balance credit life product.

Effective January 1, 1996, Indianapolis Life Insurance Company acquired 100% of the Company's outstanding capital stock. The acquisition was approved by the Arizona Department of Insurance on December 28, 1995.

On March 29, 2002, after obtaining all the necessary regulatory approvals, 80% of the Company's then issued common stock was acquired by its current parent, Delta Dental of California (DDC), a California corporation located in San Francisco and the remaining 20% of the Company's then issued common stock was acquired by Delta Dental of Pennsylvania, a Pennsylvania corporation located in Mechanicsburg,

Pennsylvania. Prior to its sale all business of the Company was transferred to its then parent, leaving it a shell. Effective September 30, 2002, with regulatory approvals, the Company was renamed Provantis Insurance Company and its state of domicile was changed from Arizona to Delaware.

Effective April 1, 2004, and per regulatory approval the name of the Company was changed from Provantis Insurance Company to Dentegra Insurance Company.

### **CAPITALIZATION**

#### **Common Capital Stock**

The total number of common stock shares which the Company is authorized to issue is 200,000 shares at a par value of \$20 for each share. On June 1, 2004, the following resolution was adopted by the Board of Directors:

“RESOLVED that the corporation shall issue 5,000 shares of authorized but un-issued stock in the corporation, at a par value of Twenty Dollars (\$20) per share, as follows:

- (1) 4,000 shares to Delta Dental of California (DDC) upon payment by DDC of \$1,600,000.
- (2) 1,000 shares to Delta Dental of Pennsylvania (DDP) upon payment by DDP of \$400,000.

FURTHER RESOLVED that the portion of the purchase price over and above the \$100,000 (\$20 per share par value times the 5,000 shares) of the 5,000 shares being issued shall constitute paid-in surplus.”

As a result of the above, capital common stock increased by \$100,000 and \$1,900,000 was allocated to gross paid in and contributed surplus.

On January 6, 2006 the Company received additional paid in capital of \$4.8 million and \$1.2 million from Delta Dental of California and Delta Dental of Pennsylvania, respectively, increasing gross paid in and contributed surplus by \$6,000,000. This contribution was related to the Company's investment in its affiliate, Servicios Dentales Dentegra, S.A. de C.V. in Mexico. The Company received approval from the Delaware Department of Insurance for this paid in and contributed surplus transaction.

As of December 31, 2006, the Company's reported balance of its common capital stock is \$2,600,000 which represents 130,000 shares issued and outstanding at \$20 per share and gross paid in and contributed surplus is \$17,027,180.

#### **Dividends**

As of December 31, 2006, the Company did not authorize, declare or pay dividends under the current ownership.

### **MANAGEMENT AND CONTROL**

Pursuant to general corporation laws of the state of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers are exercised by or under the direction of a Board of Directors, which shall be determined by the shareholders.

#### **Shareholders**

In accordance with its bylaws the annual shareholder's meetings shall be held at a date and time to be set annually by the Board of Directors.

## **Board of Directors**

The bylaws provide that the number of Directors shall be established at the annual meeting of the shareholders and shall consist of not less than five (5) members. Directors are elected annually and serve until a successor is elected and qualified. Interim vacancies may be filled by vote of the Directors then in office which may be less than the quorum. The annual meeting of the Board of Directors shall be held immediately following adjournment of each annual shareholder's meeting for the purpose of appointment of officers. The following five (5) members were elected to the Board of Directors and were serving as of December 31, 2006:

<u>Directors</u>	<u>Principal Business Affiliation</u>
Gary D. Radine *	Chief Executive Officer, Delta Dental of California
Anthony S. Barth**	Chief Operating Officer, Delta Dental of California
Marilynn G. Belek, D.M.D.	Chief Dental Officer, Delta Dental of California
Michael J. Castro	Chief Financial Officer, Delta Dental of California
Patrick S. Steele	Chief Information Officer, Delta Dental of California

\* Chairman of the Board

\*\* Vice Chairman of the board

The Board of Directors did not approve all of the investments as required by

***Section 1304 of Delaware Insurance Law.*** This Section requires that the Board of Directors approve all investments made by the Company.

**It is recommended that the Board of Directors approve all investments of the Company as required by Section 1304 of Delaware Insurance Law.**

## **Committees of the Board of Directors**

The Audit Committee was the only active committee in place as of December 31, 2006. By resolution, the Audit Committee of its parent, Delta Dental of California (DDC) serves as the Audit Committee of the Company and reports all findings and recommendations of the outside auditors to both Boards of Directors. Members appointed by the Board and serving on the Audit Committee as of December 31, 2006 were:

Glen F. Bergert, Chairman  
Terry A. O'Toole  
David S. Walker

## **Officers**

In accordance with its bylaws, officers serving the Company shall be a chairman and vice chairman of the Board, a president, a senior vice president, one or more vice presidents, a secretary, a treasurer, and one or more assistant secretaries and assistant treasurers. One person can hold more than one office. The officers of the Company elected at the annual meeting of the Board of Directors and serving as of December 31, 2006 were:

<u>Name</u>	<u>Title</u>
Gary D. Radine	President and Chairman
Anthony S. Barth	Vice Chairman
Michael J. Castro	Treasurer
Robert G. Becker	Secretary
Lowell G. Daun	Vice President
Alicia F. Weber	Assistant Treasurer
Dennis I. Cordeiro	Assistant Treasurer
Charles Lamont, Esq.	Assistant Secretary
Colleen L. Nelson	Assistant Secretary
Karen L. Robinson	Assistant Secretary

The Company did not completely comply with *Section 4919 of Delaware Insurance Law*. This Section requires that the Company notify the Delaware Insurance Department when a director or officer change is made.

**It is recommended that the Company notify the Delaware Department of Insurance when changes are made to Directors or officers in accordance with Section 4919 of Delaware Insurance Code.**

### **Conflict of Interest**

Inspection of Company files indicated that Conflict of Interest Disclosure Statements are distributed to all Directors and Officers pursuant to a resolution requiring full disclosure of any conflicts of interest. No conflicts of interest were disclosed during the examination period.

### **INSURANCE HOLDING COMPANY SYSTEM**

The Company is a member of the Dentegra Group Inc. (Dentegra Group) corporate holding company system. Dentegra Group is a nonprofit Delaware corporation located in San Francisco, CA formed by Delta Dental of California (DDC), Delta Dental of Pennsylvania (DDP) and several other affiliated companies. Together, the Dentegra Group companies, through the Delta Dental Plans Association (Delta Association), administer dental benefits to over 16 million members across the United States and Puerto Rico. Delta Dental of California (DDC) is the ultimate controlling person of the Company by virtue of its 80% ownership of the Company's outstanding common stock. The remaining 20% common shares are owned by Delta Dental of Pennsylvania (DDP). DDC is considered the ultimate controlling party of the corporate holding company system since it elects the majority of the Directors of Dentegra Group.

DDC is a nonprofit, tax-exempt corporation organized under the laws of the State of California and is licensed as a specialized health care service plan by the California Department of Managed Health Care. DDC is directed by a 15 member board composed of purchasers, enrollees and dentists. Per its consolidated audited financial statement as of December 31, 2006, DDC possessed assets of \$1.3 billion, and general reserves of \$415 million. The consolidated financial statement included the accounts of DDC, Delta Dental Insurance Company (DE), Dentegra Insurance Company (DE) (Company), Dentegra Insurance Company of New England (MA), Private Medical-Care, Inc. (CA) and Celebration Dental Services (FL).

Dentegra Group (through its control of certain subsidiaries indicated below by \*\*) is a element of the Delta Association which is comprised of 39 independent Delta Dental member companies operating in all 50 states, the District of Columbia and Puerto Rico.

Delta Association (headquartered in Oak Brook, Illinois) is a national network of independent not-for-profit dental service corporations specializing in providing dental benefits programs to individuals and employee groups throughout the United States, covering over 35 million members. According to its web site, its independent member companies were:

1	*Delta Dental Insurance Company**	21	Delta Dental of New Jersey
2	Delta Dental of Arizona, Inc.	22	Delta Dental of New Mexico
3	Delta Dental of Arkansas, Inc.	23	Delta Dental of New York
4	Delta Dental of California**	24	Delta Dental of North Carolina
5	Delta Dental of Colorado	25	Delta Dental of North Dakota
6	Delta Dental of Delaware**	26	Delta Dental of Ohio
7	Delta Dental of The District of Columbia**	27	Delta Dental of Oklahoma
8	Hawaii Dental Service	28	Oregon Dental Services Co.
9	Delta Dental of Idaho	29	Delta Dental of Pennsylvania**

10	Delta Dental of Illinois	30	Delta Dental of Puerto Rico
11	Delta Dental of Indiana	31	Delta Dental of Rhode Island
12	Delta Dental of Iowa	32	Delta Dental of South Carolina
13	Delta Dental of Kansas	33	Delta Dental of South Dakota
14	Delta Dental of Kentucky, Inc.	34	Delta Dental of Tennessee
15	Delta Dental of Massachusetts	35	Delta Dental of Virginia
16	Delta Dental of Michigan	36	Washington Dental Services
17	Delta Dental of Minnesota	37	Delta Dental of West Virginia**
18	Delta Dental of Missouri	38	Delta Dental of Wisconsin
19	Delta Dental of Nebraska	39	Delta Dental of Wyoming
20	Northeast Delta Dental		

\*Delta Dental Insurance Company (DDIC) markets dental insurance in nine (9) states which are; Alabama, Florida, Georgia, Louisiana, Mississippi, Montana, Nevada, Texas and Utah. Through its marketing affiliates, DDIC provides direct underwriting in Alaska, Connecticut, District of Columbia, New York and West Virginia. DDIC is also the direct underwriter in 19 states / regulatory jurisdictions on a multi-state dental insurance program for members of the AARP. DDIC is the direct underwriter in 31 states for the same multi-state dental insurance program for members of the AARP.

\*\* These Companies are part of the Dentegra Group corporate holding company system.

## Organizational Chart

The organizational chart below indicates the ownership and the control relationships considered material to the Company.

Dentegra Group, Inc. (DE) (Dentegra Group)

| Delta Dental of California (CA) (DDC) – Elects 5 Directors to Dentegra Group  
**Dentegra Ins. Co. (DE) (DIC)** – 80% Common Stock owned by DDC  
     Dentegra Ins. Holding, LLC (DE) (DIH, LLC) – 100% Membership Held by DIC  
     Servicios Dentales Dentegra S.A. de C.V. (Mexico) (SDD) – 98% owned by DIC\*  
     Dentales Seguros Dentegra S.A. (Mexico) (DSD) – 98% owned by DIC\*  
     Private Medical-Care, Inc. (CA) (PMI) – 100% voting memberships held by DDC  
     Dentegra Ins. Co. of New England (MA) (DIC-NE) – 100% owned by DDC  
     Delta Dental Insurance Company (DE) (DDIC) – 86.383% owned by DDC \*\*  
     Delta Rein. Corp. (Barbados) (DRC) – 5.2% owned by DDIC  
     Delta Rein. Corp. (Barbados) (DRC) – 5.2% owned by DDC

| Delta Dental of Pennsylvania (PA) (DDP) – Elects 2 Directors to Dentegra Group

**Dentegra Ins. Co. (DE) (DIC)** – 20% Common Stock owned by DDP

Delta Dental of Delaware (DE) (DDD) – Mgt. Agr. with DDP

Delta Dental of West Virginia (WV) (DDWV) – Mgt. Agr. with DDP

Delta Rein. Corp. (Barbados) (DRC) – 5.2% owned by DDWV

Delta Rein. Corp. (Barbados) (DRC) – 84.4% owned by DDP

\* The remaining 2% of SDD and DSD is owned by DIH.

\*\* The remaining 13.617% of DDIC's common stock is owned by 23 other state Delta Dental Plans members.

### **INTERCOMPANY AGREEMENTS**

The Company participated in these following significant intercompany service agreements during the period under examination:

#### **Administrative Services Agreement - AARP Dental Insurance Plan**

Effective May 1, 2004, the Company entered into an Administrative Services Agreement with Delta Dental Insurance Company (DDIC) to act as a third party administrator on behalf of the Company in regard to two group dental insurance contracts issued by the Company to the American Association of Retired Persons (AARP) Dental Insurance Trust.

Under this agreement, DDIC's responsibilities are to bill and collect Plan premiums (all of which were deposited to the Administrative Trust Fund) make payment of claims for covered services, make payment and distributions from the Administrative Trust Fund account, determine enrollment and eligibility, marketing, provide written materials, data collections and reporting, and provide underwriting and actuarial services. For 2006, the Company did not pay DDIC any service fees under this agreement.

### Management and Service Agreement

Effective January 1, 2005, the Company entered into a Management and Service Agreement with Delta Dental of California (DDC) to act as the Company's sole and exclusive manager to manage all of the day-to-day operations of the Company. Duties of DDC include claims administration, underwriting and regulatory compliance, marketing, provider relations, group and member relations, quality review system design and implementation, accounting and financial support, and premium collection and fiduciary responsibilities. For 2006, the Company paid \$5,071,227 for services provided under this agreement.

### **TERRITORY AND PLAN OF OPERATION**

#### **Territory**

As of December 31, 2006, the Company is authorized to transact business in the District of Columbia and all states excluding New Hampshire, New York, and Vermont.

#### **Plan of Operation**

The primary business of the Company is the issuance of dental insurance policies to local and multi-state groups and subscribers throughout the United States. Its current principal business was launched with the issuance of a group dental insurance contract to AARP members, and now includes business written in 31 states.

The Company had no agents; it uses the marketing of its affiliate, Delta Dental of California to sell its only current business line which is dental prepaid plans to members of the AARP.

## **REINSURANCE**

### **Assumed Reinsurance Business**

Effective January 1, 2003, the Company entered into a 50% quota share reinsurance agreement with its affiliate, Delta Dental Insurance Company (DDIC), assumes incurred claims under the covered dental contracts entered into between the Company and certain listed groups of DDIC. During 2006, the Company assumed incurred claims in the amount of \$130,621 and received reinsurance premiums in the amount of \$194,089. The Company did not retrocede this business.

### **Ceded Reinsurance Business**

Delta Dental of California (DDC)

Hannover Life Reinsurance Company of America (Hannover Life Re)

Renaissance Life & Health Insurance Company of America (Renaissance Life)

Effective May 1, 2002, amended February 1, 2006, the Company entered into quota share reinsurance agreements with DDC, Hannover Life Re, and Renaissance Life ceding 56%, 33%, and 10% respectively, of the AARP Dental Insurance Trust business. These agreements expire on January 31, 2009 unless the AARP Dental Insurance Trust and underlying contracts are sooner terminated or renewed for additional terms. As of year end 2006, the Company reported a reserve credit of \$1,835,856 and funds withheld from DDC in the amount of \$5,698,230.

## **GROWTH OF THE COMPANY**

The following information was extracted from the Company's filed Annual Statements with the exception of 2006, which was verified during the current

examination, and shows the growth of the Company since the last examination as of December 31, 2003.

<u>Year</u>	<u>Admitted Assets</u>	<u>Capital and Surplus</u>	<u>Net Premiums and Annuities Considerations*</u>	<u>Net Income (Loss)</u>
2006	\$27,822,624	\$13,522,098	\$17,872,650	\$450,550
2005	24,144,704	8,857,475	3,219,893	152,129
2004	10,020,897	8,705,424	1,544,676	(19,252)
2003	6,944,322	6,723,982	209,456	98,594

\*Direct premiums written plus reinsurance assumed less reinsurance ceded.

As shown above, the Company reported steady increases in each of the categories shown above throughout the examination. The large increase in capital and surplus in 2006 was due to a \$6 million additional paid-in capital contribution from its two shareholders, Delta Dental of California (\$4.8 million) and Delta Dental of Pennsylvania (\$1.2 million), which was in proportion to their existing ownership.

### **ACCOUNTS AND RECORDS**

The general ledger of the Company is maintained on a mainframe computer system which is provided by the parent company, Delta Dental of California. The current software used includes general ledger and accounts payable applications provided by Oracle Software.

The stock record and ledger, annual statements, quarterly financial statements, reinsurance agreements, and operational records including policy files, summaries of claims paid data, general correspondence, and day to day records are maintained at the Company's main administrative office in San Francisco, California. Data related to

underwriting and actuarial calculations, claims paid and claims processing, marketing and marketing administration are also maintained at the Company's office in San Francisco, California.

During the course of the examination of the Company's accounts and records, the examiners revealed some misclassifications of assets and liabilities. The review of the Company's 2006 Annual Statement disclosed several pages which were either incomplete or prepared incorrectly, and indicated that the Company did not entirely and fully prepare its annual statements in accordance with the *NAIC Annual Statement Instructions*, the *NAIC Accounting Practices and Procedures Manual* and the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*.

One significant discrepancy is briefly described in the following. This discrepancy could be measured by dollar amount and the involved amounts which were above the level of the planning materiality (PM) are being specifically reflected in the section of "FINANCIAL STATEMENTS" and further discussed in the section of "NOTES TO FINANCIAL STATEMENTS" of this report, respectively.

- The amount reported for Drafts Outstanding did not qualify as a liability as defined by NAIC SSAP No. 2, Cash, Drafts, and Short-Term Investments. Instead the outstanding drafts were determined to be outstanding checks and were reclassified to offset cash, thus making cash a negative balance which affected the Risk Based Capital ratios.

Exceptions noted that did not affect the Company's Financial Statements were as follows;

- Schedule S, Part 4 – “Reinsurance Ceded To Unauthorized Companies” was not completed in the Company’s filed 2006 Annual Statement to disclose amounts held by various trust agreements and letters of credit for the reserve credit taken by the Company from the ceded reinsurance with unauthorized companies.

**It is recommended that the Company comply with *Section 526 of the Delaware Insurance Code* which provides, among others, the annual statement shall be prepared in accordance with the *NAIC Annual Statement Instructions* and the *NAIC Accounting Practices and Procedures Manual*.**

### **FINANCIAL STATEMENTS**

The financial position of the Company as of December 31, 2006, as determined by this examination, is presented in the following exhibits:

- Assets, Liabilities and Surplus as of December 31, 2006
- Underwriting and Investment Exhibit Statement of Income as of December 31, 2006
- Analysis of Examination Changes as of December 31, 2006

**Analysis of Assets**  
**As of December 31, 2006**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 15,952,555	\$ 0	\$ 15,952,555	1
Common stocks	4,553,157	85,685	4,467,472	
Cash	2,500,171		2,500,171	2
Short-term investments	<u>100,000</u>		<u>100,000</u>	
Subtotal cash and invested assets	\$ 23,105,883	\$ 85,685	\$ 23,020,198	
Investment income due and accrued	47,561		47,561	
Amounts recoverable from reinsurers	1,011,962		1,011,962	
Net deferred tax asset	177,010	177,010	0	
Receivables from parent, subsidiaries and affiliates	3,742,903		3,742,903	
Furniture and fixtures	146,621	146,621	0	
Prepaid expenses	209,540	209,540	0	
Cash in Mexico	255,429	255,429	0	
Remaining investments in Mexico	<u>972,511</u>	<u>972,511</u>	<u>0</u>	
<b><i>Totals</i></b>	<b><u>\$ 29,669,420</u></b>	<b><u>\$ 1,846,796</u></b>	<b><u>\$ 27,822,624</u></b>	

**Liabilities, Surplus and Other Funds****As of December 31, 2006**Notes

Aggregate reserve for accident and health contracts	\$	134,529	
Contract claims:			
Accident and health		26,154	
General expenses due or accrued		6,225	
Taxes, licenses and fees due or accrued		404,844	
Asset valuation reserve		116,217	
Payable to parent, subsidiaries and affiliates		13,612,557	
Drafts outstanding		668,625	
Rounding		3	
<b><i>Total Liabilities</i></b>	\$	<u>14,969,154</u>	
Common capital stock	\$	2,600,000	
Gross paid in and contributed surplus	\$	17,027,180	
Unassigned funds (surplus)		<u>(6,105,082)</u>	
Surplus		<u>10,922,098</u>	
Total of capital and surplus	\$	<u>13,522,098</u>	
<b><i>Totals</i></b>	\$	<u><u>28,491,252</u></u>	

**Summary of Operations**  
**As of December 31, 2006**

Premiums and annuity considerations	\$ 17,872,650
Net investment income	<u>339,583</u>
<b><i>Totals</i></b>	<b><u>\$ 18,212,233</u></b>
Disability benefits and benefits under accident and health policies	\$ 2,693,642
Increase in aggregate reserves for life and accident and health policies and contracts	<u>3,369,465</u>
<b><i>Totals</i></b>	<b><u>\$ 6,063,107</u></b>
General insurance expenses	10,249,686
Insurance taxes, licenses and fees	<u>1,448,890</u>
<b><i>Totals</i></b>	<b><u>\$ 17,761,683</u></b>
Net gain from operations before federal income taxes	\$ 450,550
Federal income taxes	<u></u>
Net gain from operations before net realized capital gains or (losses)	\$ 450,550
Net realized capital gains or (losses)	<u>0</u>
<b><i>Net Income (Loss)</i></b>	<b><u><u>\$ 450,550</u></u></b>

**Capital and Surplus Account**  
**December 31, 2005 to December 31, 2006**

		<u>Notes</u>
Capital and surplus, December 31, 2005	\$ 8,857,475	
Net income	\$ 450,550	
Change in net unrealized capital gains or (losses)		
Change in non-admitted assets and related items	(1,669,786)	
Change in asset valuation reserve	(116,139)	
Change in paid in surplus	6,000,000	4
Net change in capital and surplus for the year	\$ 4,664,625	
Capital and surplus, December 31, 2006	<u>\$ 13,522,098</u>	

**SCHEDULE OF EXAMINATION ADJUSTMENTS**

<u>Description</u>	<u>Per</u> <u>Examination</u>	<u>Per</u> <u>Company</u>	<u>Surplus Increase</u> <u>(Decrease)</u>	<u>Notes</u>
Assets:				
Cash	\$ 2,500,171	\$ 3,168,796	\$ (668,625)	2
Adjusted Admitted Assets	<u>\$ 2,500,171</u>	<u>\$ 3,168,796</u>	<u>\$ (668,625)</u>	
Liabilities and Surplus:				
Drafts outstanding	\$ 0	\$ (668,625)	\$ 668,625	2
Adjusted Liabilities and Surplus	<u>\$ 0</u>	<u>\$ (668,625)</u>	<u>\$ 668,625</u>	

**NOTES TO THE FINANCIAL STATEMENTS**

Note 1 - Bonds: \$15,952,555

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this report.

An evaluation of the Company's bond portfolio noted 100% of its holdings possessed an NAIC rating of 1. With the exception of bonds held for statutory purposes, investments are held by Wells Fargo Bank under a custodial agreement dated January 30, 2007. Review of the custodial agreement with Wells Fargo noted that it did not contain all the necessary provisions as required by the *NAIC Financial Condition Examiners' Handbook*.

**It is recommended that the Company amend its custodial agreement with Wells Fargo to comply with the *NAIC Financial Condition Examiners' Handbook, Part 1, Section IV*.**

Note 2 - Cash: \$2,500,171

Note 2 - Outstanding Drafts: \$ (-0- )

The above captioned amounts for Cash and Outstanding Drafts each were \$668,625 less than what was reported by the Company. This was the result of the Company incorrectly reporting outstanding checks as a liability and not as an offset to cash. Per SSAP No. 2, the Company's should have treated the outstanding drafts as outstanding checks and offset cash by the amount of the outstanding checks.

**It is recommended that the Company report cash and outstanding drafts in accordance with SSAP No. 2.**

A reclassification is being made to reduce the reported amount of cash and outstanding drafts in the amount of \$668,625. This reclass will not have a material affect of the Company's Risk Base Capital ratios.

Note 3 - Aggregate reserve for accident and health contracts: \$(134,529)

Note 3 - Contract Claims: Accident and Health: \$(26,154)

The above captioned amounts for Aggregate Reserve for Accident and Health Contracts and Contract Claims: Accident and Health, are the same as that reported by the Company. The Contract Examination Actuary reviewed this balance without exception.

Note 4 – Gross paid in or contributed surplus: \$(6,000,000)

The Company received a \$6,000,000 capital contribution in January 6, 2006, \$4,800,000 from Delta Dental of California and \$1,200,000 from Delta Dental of Pennsylvania.

### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The prior examination report contained four recommendations as follows:

- 1) It was recommended that all officers and other key employees of the Company be included in the process of the conflict of interest disclosure procedure, and complete and sign such disclosure statement annually. It was also further recommended that the Company maintain the records of the statement of policy on conflict of interest and the statement of declaration of conflict of interest for all the years under the examination period, and make it available for future examinations.

The Company has complied with this recommendation.

- 2) Concerning Accounts and Records it was recommended that the Company comply with *Section 526 of the Delaware Insurance Code* which provides, among others, the annual statement shall be prepared in accordance with the *NAIC Annual Statement Instructions* and the *NAIC Accounting Practices and Procedures Manual*.

The Company has not complied with this recommendation.

- 3) Concerning Company's common stock it was recommended that the Company comply with *Section 526 of the Delaware Insurance Code* which provides, among others, the annual statement shall be prepared in accordance with the *NAIC Annual Statement Instructions* and the *NAIC Accounting Practices and Procedures Manual*.

The Company has complied with this recommendation.

- 4) Concerning Company's cash equivalents and money market mutual funds it was recommended that the Company comply with *Section 526 of the Delaware Insurance Code* which provides, among others, the annual statement shall be prepared in accordance with the *NAIC Annual Statement Instructions* and the *NAIC Accounting Practices and Procedures Manual*.

The Company has complied with this recommendation.

### **SUMMARY OF RECOMMENDATIONS**

1. **Board of Directors did not approve all investments made by the Company.** (Page 7)

It is recommended that the Board of Directions approve all investments as required by **Section 1304 of the Delaware Insurance Code**.

2. **Notification of changes in Directors and officers.** (*Page 9*).

It is recommended that the Company comply with **Section 4919 of the Delaware Insurance Code** which requires the Company to notify the Delaware Department of Insurance when a Director or officer is changed.

3. **Schedule S - Part 4 - Reinsurance Ceded to Unauthorized Companies** (*Page 17*)

It is recommended that the Company comply with **Section 526 of the Delaware Insurance Code** which provides, among others, the annual statement shall be prepared in accordance with *the NAIC Annual Statement Instructions* and the *NAIC Accounting Practices and Procedures Manual*.

4. **Custodial agreement with Wells Fargo** (*Footnotes to the Financial Statement, Note 1*) (*Page 22*)

It is recommended that the Company's custodial agreement with Wells Fargo be amended to meet the requirements with *NAIC Financial Condition Examiner's Handbook Part 1, Section IV*.

5. **Cash and Outstanding Drafts** (*Footnotes to the Financial Statement, Note 22*)

It is recommended that the Company comply with **SSAP No. 2** as to the reporting of cash and outstanding drafts.

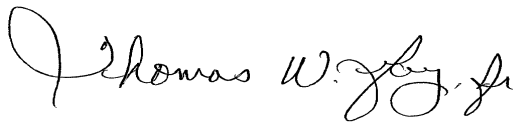
**CONCLUSION**

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2003</u>	<u>December 31, 2006</u>	<u>Increase</u>
Assets	\$ 6,944,322	\$ 27,822,624	\$ 20,878,302
Liabilities	220,340	14,300,526	14,080,186
Capital and Surplus	6,723,982	13,522,098	6,798,116

In addition to the undersigned, Larry Elson, CFE and Larry Cross, CFE participated in the examination. Actuarial assistance was provided by INS Consultants, Inc.

Respectfully submitted,



Thomas W. Gay, CFE  
Examiner-in-Charge  
State of Delaware